Importance and Status of NARUC's Moratoria Study

Notes for a presentation delivered to Members and guests of:
The Interstate Oil and Gas Compact Commission on May 5, 2008
By Dave Harbour,
Vice Chairman, NARUC Moratoria Study Group, speaking as a private citizen

Ladies and Gentlemen:

(I'm honored to address you today as a private citizen serving on the NARUC Moratoria Study Group and not a representative of NARUC or my home state.)

What a pleasure it is to join you in Calgary just a year after having the honor of chairing the Arctic Gas Symposium last March here in Calgary….and to be sharing the podium in 2008 with my own governor and my friend and colleague Dan Seamount. Last year I was honored to moderate messages from Minister Prentice, Premier Stelmach, Premier Handley, Premier Fentie and Drue Pearce. There have been changes in the intervening year: some of us have left or changed roles in government and industry while Alaska's new governor is leading IOGCC and our state while caring for a new addition to her family, Trig Paxon Van Palin.

And today, another good share of American and Canadian leaders fill this room so I am a fortunate man, indeed.

I refer to our Canadian friends because, though this message is primarily for U.S. Commissioners, Canada could increasingly face some of the same natural gas supply challenges her Southern neighbor is now encountering. Also, because we are each others' largest trading partner we notice when the other experiences economic change. For example, when America's Energy Independence and Security Act of 2007, under Sec. 526, could be interpreted to *eliminate* the Defense Department's

ability to import product derived from the oil sands, we have a North American problem, not a U.S. problem. As Americans experiencing energy shortages and high prices and security threats, the last thing we would logically or intelligently want to tell our Canadian neighbors (with perhaps hundreds of billions of barrels of oil potential), is 'Not Interested'.

Let me take you back a few years: on July 22 of 2002 Assistant Secretary of Fossil Energy Mike Smith addressed the Anchorage Chamber of Commerce and said, "Energy is a critical component of nearly everything that affects our daily lives, from transportation to communication, from food production to medical services, and from air conditioning to clothing."

Mike said then, "It is imperative that we meet our energy challenges, expand our economy, and create new jobs through the use of better technology and gain energy and individual independence safely, affordably and in a way that maintains energy security for future generations."

I don't know that many in this room believe we've lived up to his 2002 vision but I know Mike will continue to advocate that same message in his new role as IOGCC's Executive Director. We must all now agree that the warning call he made six years ago in Alaska is even more compelling now.

My goal today is to brief you on NARUC's moratoria study, a key part of the energy challenge Mike identified six years ago. NARUC AND IOGCC resolutions are in the document before you under cover of a letter signed by Governor Palin. I will cover these three points:

1. Why is a Study on the Costs of Moratoria Necessary and Why Now?
2. Why is NARUC and IOGCC leadership essential?
3. What is the Study's Status?

I'll conclude with a suggestion about what more we can do.

1. First, why do the study? Last Thursday, Governor Palin responded to President Bush's press conference, saying that, "*Here in Alaska and across the nation, communities are feeling the pinch of high energy costs. It is absurd that we are borrowing hundreds of billions of dollars from one foreign country to buy oil from another. It is a threat to our national security and economic well-being. It is well past time for America to develop our own supplies.*" She might well have been thinking of a new government report that in the past year in Anchorage the price of beef rose 18%, eggs, 22%, bread 33%, cheese 61% and rice, 85%. We know that all states are experiencing some increases and that to one degree or another all of these increases are related to energy supply and costs.

   Remember Mike Smith's 2002 words that, "*Energy is a critical component of nearly everything that affects our daily lives?*"

   Critical is the right word. In fact, few here would dispute that production of domestic fossil fuel is the very bedrock of North American wealth. Low cost human labor fueled many historical economies, but domestic fossil fuel and the industrial revolution here meant we could build the most successful economy in history by substituting fossil fueled horsepower for human fuel. Fossil resource production produces energy that powers electrical generation; fuels farming, mining, fishing and transportation; heats and cools homes and offices; energizes computers and every sort of machinery; provides feedstock for fertilizer and petrochemicals; generates millions of good paying, direct and indirect jobs; pays more money to citizens through state, local and federal taxes and royalties than the producers themselves often make and creates business and personal tax revenue to government from those *affiliated with* energy. America should be celebrating this

industry as the country's primary source of wealth that—if respected and used properly—could help us transition into a more carbon free society without crippling that society.

Domestic production prevents outsourcing of energy jobs to dangerous, poorly regulated parts of the world, supports our national defense by safeguarding against disruption and causes the continuous recycling of locally produced wealth that would otherwise flow offshore. Domestic production, by minimizing our foreign exchange deficit, supports the value of our currency and defends against the ravages of inflation imposed on every citizen. Domestic production is also as advanced and tightly regulated as anywhere. And…if you think more about it I bet you'll agree that domestic energy is one of the cleanest, safest industries in all of creation…because it is more *capital intensive* than almost every other industry. This is so because very few hydrocarbon workers—leaving relatively small footprints--produce tons of money for the private and public sectors. On the other hand, the commercial fishing, farming, and tourism industries (for example), are *people intensive*; they provide tons of jobs having big footprints and produce things of value but also consume tons of public services and contribute relatively little to the public coffers. Yes, fossil fuels produce prodigious streams of revenue radiating throughout all segments of society—including shareholder revenue, which is multiply taxed, and which further flows to every sort of government investment vehicle, pension funds, and foreign investors whose confidence improves our economy.

I'm sure that each of you in this room—as the Nation's conservators of oil and gas production--could help me list even more reasons for supporting the swift completion of this cost of moratoria study but let me go on to suggest why it is also critical that we do it now!

Why now? Our national defense, jobs, economy, energy dependence are all trends moving very rapidly in the wrong direction. We're almost 5% dependent on imported LNG and NARUC has supported siting of sufficient new receiving facilities to help us fill the demand void. I'm sure IOGCC commissioners concur that LNG will have to be the wild card wedge making up for declining North American natural gas supply. But that dependence could grow to 20% by 2030 and to the extent that we increase dependence on imported natural gas, so do we weaken our national security further and exacerbate our economic malaise…as we have done by expanding our foreign oil dependence to over 60% (Thank goodness we get our greatest share of imports from our Canadian and Mexican neighbors.) And…our domestic energy industry—and Canada's and Mexico's--now has to identify more remote frontiers to find oil and gas, since we've long since picked the low hanging fruit. When explorers get to those remote frontiers they have to avoid restricted areas, deal with impressive, modern regulatory challenges along with aboriginal, NIMBI and environmental issues; then, in general, they have to drill deeper than before, can expect to find less, can expect to produce it for fewer years, in lower volumes and at a higher cost than ever before.

We are pretty much at capacity now, worldwide, producing within a couple million barrels per day of what we use.

On the natural gas side it's no secret here that we have a significantly growing appetite for natural gas as the preferred fuel for power production, residential and industrial uses. I think our Canadian partners will agree we are all fortunate if Canada can keep gas exports from materially declining over the next decade, but no one is optimistic that our friends can meet our growing demand.

As a new President and Congress take control of Washington next year, the shortages in energy could be greater and prices higher for all affected products and services. The current, unhappy political debate could turn very ugly and be intensified by much higher food prices amid growing tension surrounding the unintended negative effect of ethanol subsidies…regardless of your position on that hot topic. Then there is the global warming, green house gas debate fueling yet another set of sensitivities and pushing the nation toward legislation that the U.S. Chamber estimates could cost our ratepayer families as much as several thousand dollars a year more than current utility bills. Amid this debate, this emotion, this whirlpool of conflicting opinion – it will be essential for NARUC and IOGCC commissioners to be able to present facts to our policy makers in support of a rational, national energy policy.

The reason this moratoria study must be done *now* is because the country is challenged by policies that put so many humans and lifestyles and institutions at risk in the very near future.

2. I've covered the reason to undertake the moratoria study and the reason to do it now. The reason NARUC and IOGCC and our partner groups should be exercising strong leadership on this issue is because no one else can. Politicians typically look to regulatory and conservation commissioners to dispassionately and objectively conduct quasi-judicial, quasi-legislative proceedings in the public interest…providing due process to the parties. The issue of restricted Federal lands is an emotional one with special interest parties on both sides, influencing policy makers. Commissioners, through their leadership with this study, can give policy makers facts if not show them the way. And when we produce facts—as IOGCC has recently done with its own important studies—like the 2006 report on the nation's untapped offshore oil and gas potential…and its 2007 study on the underappreciated importance of marginal wells--political leaders listen.

3. Last, I offer you the status report. NARUC's Board approved the resolution before you about 9 months ago, finding that lifting energy exploration and production moratoria on federal lands could increase domestic supplies, reduce energy prices, create hundreds of thousands of jobs, and lesson America's dependence on foreign energy imports.

    • The resolution before you recognizes that high energy prices impact the social and economic fabric of the country, particularly for low-income consumers.

    • While NARUC supports conservation and other energy efficiency initiatives, the resolution recognizes that conservation alone will not resolve the ongoing energy price and supply challenges we face.

    • NARUC members are also sensitive to the sheer volume of LNG imports needed to replace dwindling domestic natural gas reserves, implications such as:

        • Outsourcing American energy exploration and development to parts of the world where environmental standards may be less rigorous and shipping requires long ocean voyages;

        • Deferring domestic oil and gas tax and royalty payments in favor of exporting the nation's wealth to purchase foreign oil and gas; and,

        • Affecting the U.S. balance of payments deficit with resulting impacts on the value of currency and purchasing power of energy consumers,

        • Further impacting the nation's security.

• Moreover, the federal government by its own estimates has projected that significant hydrocarbon reserves exist beneath federal lands and undersea areas controlled by the U.S., perhaps over 200Tcf of gas resources. The Interior Department is now in the process of fulfilling an Energy Policy Act of 2005 requirement in Sec. 347 to conduct an inventory of onshore Federal lands, identifying oil and gas resources and constraints to development. That work will be helpful to NARUC, IOGCC and our Study Group partners.

• Since last summer, NARUC has coordinated the support necessary to oversee this important project with IOGCC, API, EEI, AGA, INGAA, NGSA, Edison Electric Institute, American Public Gas Association, Independent Petroleum Association, USOGA, BP America, Dominion Resources, DTE Energy, El Paso Natural Gas, Marathon, National Fuel Gas Co., Piedmont Natural Gas, Questar Corporation, TECO Peoples Gas System and the Consumer Energy Alliance. We have recruited a dream team of economists from the EIA, FERC, BLM, MMS, LSU, UT and others.

• The group is led by South Carolina Public Service Commission Chairman O'Neal Hamilton, who also chairs NARUC's Committee on Gas. Commissioners Seamount and Carrillo serve on the Study Group. I have been asked to continue serving as vice chairman even though my commission term ended on March 1. The group has met in person twice since last summer and fundraising efforts have been successful. We've raised over $250,000 of the over $300,000 needed for this study. A committee is meeting next week to begin constructing an RFP.

• I should emphasize that although NARUC supports and assists in coordinating this study and has provided $50,000, this is not a "NARUC-led" effort. It is a group effort with input coming from all members of the Moratoria Study Group.

Conclusion

There is something each one of us can do.

When the subject of energy prices arises, I hope we can all do our best to acquaint fellow citizens with facts and help them avoid crashing into the useless brick wall of opinion debate. The stakes are too high and time is too short. We are all anxious to transform ourselves into a cleaner environment of the future, but commissioners know better than most that this will not be accomplished either easily, cheaply or overnight. We need courage, persistence, patience and transitioning time. During that time our political leaders with our help will either support policies that 1) moderate prices by increasing the (hopefully, domestic) supply of fossil fuel, or 2) increase prices for energy and everything else while lowering our standard of living and compromising our national security.

Citizens who are surveyed say they <u>want</u> a cleaner environment but that they are <u>not willing to or cannot</u> pay for the cost. The least our wise commissioner groups can do to serve the public interest is give citizens and policy makers the facts: the costs to them and to our country for maintaining vast millions of acres of moratoria areas as the cost of energy, goods and services grow; as the value of our currency falls; as we export hundreds of thousands of energy and support industry jobs to other countries; and as the security of the country becomes more tenuous.

And, we should *insure* that <u>appropriate</u> revenue sharing is in place for all on- and off-shore federal areas to *assure* that the affected states are able to properly service wealth producing energy exploration and development with schools, roads and other vital services and infrastructure.

There is one more thing we can do. I invite my IOGCC friends to offer a modest contribution toward this joint effort to construct a more rational, national energy policy. Our largest Moratoria Study Group contribution is NARUC's $50 thousand and our smallest is $750. Every contribution of every size is valued.

With your help we should present to the new President and Congress next winter a definitive study revealing to the costs of maintaining moratoria against hydrocarbon exploration and production at a time when lack of such supply threatens America's way of life and national security.

With support like NARUC'S AND IOGCC'S and our supportive partners, how can we not be optimistic?

Thank you!

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Dave Harbour
Biography for IOGCC (Short Version-Introductions, 5-08):

In March, the National Association of Regulatory Utility Commissioners adopted a resolution naming Dave Harbour a 'Commissioner Emeritus' after his years of service as NARUC's Official Representative to IOGCC and as Vice Chairman of NARUC's Gas Committee. NARUC has asked him to continue in his volunteer capacity as Vice Chairman of the Moratoria Study Committee enacted with support of our organization. He also served as Chairman of the Gas Committee of the Western Conference of Public Utility Commissioners and next month will be providing the Western Conference of Public Service Commissioners with a moratoria panel presentation which includes the Directors of the BLM and MMS.

Before his commission service, Dave was founder and publisher of NORTHERN GAS PIPELINES (http://www.arcticgaspipeline.com) and will be continuing his coverage of Alaska and Canadian Arctic gas pipelines along with his private consulting, public speaking and writing. He is a newly appointed member of the Consumer Energy Alliance Board of Advisors.